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Financial Markets

Irving Trust

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Economic Research & Planning Division

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(Noon)

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The long-awaited quarter-end pressure on the Fed funds rate is finally developing --the result is confusion. It's not because the funds rate has moved so high, but because that rate had moved so low and now has returned up into, and above, its former trading range. Many observers have been confused by the fact that rates have been bouncing about so abruptly. However, the movement in rates is considered sharp only by recent standards, not by the standards of 1980 or 1981. Moreover, the reason the Fed allows rates to be this volatile is that the Fed is not pegging interest rates as it had in the period prior to October of 1979. Under the post-October 1979 procedures, technical factors and market expectations are allowed to play a larger role in the determination of the Fed funds rates. Still, these forces are more unsettling to the market in a period following great interest rate stability.

With the exception of last week, the average weekly Fed funds rate, since the statement week ended July 20, has resided in a range of 26 basis points: from 9.41% to 9.67%. Interestingly, the sharpest weekly movement in rates during this period was from 9.67% in the week ended August 17 to 9.41% in the week ended August 24. Now, just five weeks later, we see another abrupt move in rates: from 9.48% to 9.04%, again in consecutive weeks. What's going on here? Is the Fed suddenly easing?

The answer seems to be both no and yes. First, the Fed is not doing anything suddenly. It tends to act slowly and deliberately when the direction for policy is clear. However, the Fed does seem to have eased somewhat, simply because it has allowed rates to move down to lower levels and to stay there. However, evidence from reserve statistics is less able to support the contention of a Fed easing.

The evidence in the reserve factors is important because reserve availability is the primary tool the Fed uses to manipulate interest rates. It is important to note that the two recent downturns in rates were not accompanied by any clear or persistent Fed action with bank reserves. The first easing (Aug. 24) coincided with the financial markets' bullishness, which accompanied the unexpected downturn of M1 into its new monitoring range. The second easing (Sept. 28) was the result of a sharp buildup in Treasury cash balances, which the Fed strongly offset. The current rebound in rates at quarter-end makes the Fed's too-aggressive Treasury balance offset operations look like even more of an error than they were--but it also clarifies them as mostly technical. Indeed, the Fed has kept its net borrowed reserve figures broadly in the $250-$450 million region (on a three-week moving average basis) since July 20. Two recent weeks have slipped below that range, but they were weeks of firm Fed funds rates. The more important, but less noticed, six-day reserve figures (Thurs.-Tues.) have been even steadier since July 20, ranging from $450 to $620 million net borrowed reserves for the three-week moving averages. Here there is some indication of an easing by the Fed, but it's a very modest one. Most of the easing so far has been done by the market. We are still waiting for the Fed to make a real move.

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Market Yields

	9/30/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	13.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	10.00
Federal Funds	10.50	9.13	10.50
Repurchase Agreements	9.50	8.95	10.38
U.S. Treasury Issues			
Bills			
3 months	9.08	9.23	7.69
6 months	9.48	9.49	9.24
1 year	9.83	9.87	10.31
Coupons			
2 years	10.54	10.64	11.19
4 years	11.00	11.12	11.58
7 years	11.39	11.48	11.62
10 years	11.43	11.49	11.91
Long Bond	11.44	11.49	11.72
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.10	9.25	10.10
3 months	9.15	9.25	10.38
6 months	9.40	9.40	10.65
1 year	9.90	9.80	11.00
Banker's Acceptances			
1 month	9.20	9.20	10.00
3 months	9.25	9.25	10.25
6 months	9.42	9.52	10.65
Eurodollar Deposits			
1 month	9.50	9.68	11.13
2 months	9.50	9.68	11.25
3 months	9.63	9.75	11.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.14	8.63	10.56
1 month	9.33	9.19	10.48
3 months	9.74	9.34	10.67
Bank Holding Companies			
1 month	8.81	8.94	10.10
Dealer Placed:			
3 months	9.42	9.54	10.40
New AA Corporate Utility Bond	12.55	12.55	13.75
Tax Exempt			
6 month Project Notes	5.30	5.40	5.20
1 year AAA Bond	5.25	5.50	6.50
5 year AAA Bond	6.70	6.75	7.50
20 year AAA Bond	8.90	9.00	9.80

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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